CONGRESSIONAL BUDGET OFFICE
PRIVATE-SECTOR MANDATE STATEMENT

June 8, 1999

S. 192
Fair Minimum Wage Act of 1999

As introduced on January 19, 1999

SUMMARY

S. 192 would amend the Fair Labor Standards Act of 1938 (FLSA) to increase the federal minimum wage rate from $5.15 per hour to $5.65 per hour on September 1, 1999, and to $6.15 per hour on September 1, 2000. It would also apply the minimum wage provisions of the FLSA to the Commonwealth of the Northern Mariana Islands (CNMI).

PRIVATE-SECTOR MANDATES CONTAINED IN BILL

S. 192 would impose a mandate on private-sector employers covered by the FLSA because it would require them to pay a higher minimum wage rate than they are required to pay under current law.

ESTIMATED DIRECT COST TO THE PRIVATE SECTOR

CBO's estimate of the direct cost of the private-sector mandates in S. 192 is displayed in the following table. The cost would exceed the threshold specified in the Unfunded Mandates

	By Fiscal Year, in Billions of Dollars				
Provision	1999	2000	2001	2002	2003
Increase the federal minimum wage	0.2	2.1	5.3	4.7	4.1
Apply the minimum wage to the CNMI	a	0.2	0.2	0.2	0.2

a. Less than $50 million.

Reform Act of 1995 ($100 million in 1996, adjusted annually for inflation) in each of the first five years following enactment.

BASIS OF ESTIMATE

S. 192 would increase the federal minimum wage from $5.15 to $5.65 per hour on September 1, 1999, and to $6.15 on September 1, 2000. In addition, it would apply the minimum wage provisions of the FLSA to the CNMI. It would not change other sections of the FLSA providing different rules for certain workers and employers, including the provision permitting employers to pay teenagers $4.25 per hour during the first 90 consecutive days of employment.

To estimate the direct cost to private employers of raising the minimum wage, CBO used information on the number of workers whose wages would be affected in September 1999 and subsequent months, the wage rates these workers would receive in the absence of the bill, and the number of hours for which they would be compensated.

The estimate was made in two steps, which are described in more detail below. First, CBO used data from the Current Population Survey (CPS) to estimate how much it would have cost employers to comply with the mandate had they been required to do so in early 1999. Second, this estimate was used to project the costs to employers beginning in September 1999, taking into account the expected decline in the number of workers in the relevant wage range. The methods used for this estimate are similar to those used for CBO's estimates of a proposal made in 1998 but are updated to include more recent information.

Much less information is available regarding the effect of the minimum wage provisions on the CNMI. The current minimum wage there is $3.05 per hour. The bill would immediately apply the federal minimum wage of $5.15 per hour to the CNMI. Thereafter, increases in the federal minimum wage to $5.65 and $6.15 would apply to the CNMI as well. Based on information provided by the U.S. Department of Labor, it appears that roughly 30,000 private workers are employed in the CNMI at about $3.05 per hour (and few are employed at wages rates between $3.06 and $6.14 per hour). Assuming that they work full time, increasing the minimum wage rate from $3.05 to $5.15 would increase their weekly earnings by $84 per week. If the new minimum wage took effect in August or later in 1999, the total cost of the mandate to employers in the CNMI in that fiscal year would be small. Further increases would occur under S. 192 as the federal minimum wage rate rose to $5.65 and to $6.15. Assuming that those increases would apply to 30,000 workers, the bill would impose a mandate on private employers of about $200 million per year in 2000 and thereafter.

Estimates from the Current Population Survey

Data on hourly wage rates contained in the March 1999 CPS are the basis for CBO's estimate of the number of private-sector workers in that month who were paid a wage rate in the relevant range. At that time, about 1.3 million workers in the private sector reported being paid exactly $5.15 per hour. About 700,000 workers reported being paid $5.00 per hour; CBO assumes that these workers were also covered by the $5.15 minimum wage and misreported their wage rate. An additional 7.6 million workers were paid between $5.16 and $6.14 per hour. Roughly one-third of the workers in the relevant wage range were teenagers. Based on information from the Bureau of Labor Statistics, CBO assumes that about 30 percent of those teenagers were in their first 90 days of employment with their current employer and therefore not covered by the increase in the minimum wage in S. 192.[1]

CBO estimates that if the private-sector workers who had been paid between $5.15 and $5.64 per hour in March1999 had been paid $5.65 instead (with no change in the number of hours worked), their employers would have paid them approximately $150 million in additional wages in that month. If the workers who had been paid between $5.15 and $6.14 had been paid $6.15, their employers would have incurred an additional wage bill of about $500 million in that month. Moreover, employers would have been required to pay their share of legally mandated costs that are tied to a worker's wages; these payments are included in CBO's estimate of the total direct cost of the mandate.

Applying the Estimates from the CPS to the Projection Period

The monthly cost to employers of the proposed increases in the minimum wage would be smaller in the future than now because the number of workers in the affected range will decline, as it did after previous increases in the minimum wage rate. For example, between 1992 and 1995, the number of workers earning $4.25 per hour (the minimum wage rate which became effective in April 1991), fell by about 30 percent. Between September 1997 and March 1999, the number of workers paid $5.15 per hour (the minimum wage rate established in September 1997) fell by an even greater amount as market forces and increases in state minimum wage rates raised the level of wages paid. CBO assumes that the direct cost of the mandate would steadily decrease at a rate of about 10 percent per year throughout the projection period.

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1. This estimate is derived from information on job tenure, by age, provided by the Bureau of Labor Statistics. That information is based on supplemental questions included in the February 1998 Current Population Survey.

Estimates for each fiscal year were made by aggregating the monthly costs. The estimate for fiscal year 1999 is the smallest because that period would only include an increased minimum wage for one month. The estimate for 2000 would include the cost of a $5.65 minimum wage for eleven months and a $6.15 minimum wage for one month. The estimate of the direct cost to the private sector is highest for 2001, when all twelve months would be at $6.15 per hour.

Limitations

Estimates of the direct cost of this mandate are uncertain for at least two reasons. First, the main source of data—the March 1999 CPS—is subject to sampling error and other problems when used for this purpose. For example, there is uncertainty about the actual wage rate of workers who said that they were paid $5.00 per hour. CBO assumed that the workers who reported being paid this rate after the minimum wage had risen to $5.15 were actually paid $5.15 because there is no evidence that compliance with the Fair Labor Standards Act fell. In addition, the wage rates of certain other low-wage workers (some who reported being paid below $5.00 per hour and some who were not paid on an hourly basis) would also be affected by an increase in the statutory minimum, but the CPS does not provide reliable estimates of the number of such workers nor the increase in mandate cost that would be attributable to them.[2]

A second source of uncertainty in this estimate is the fact that there is no solid basis for projecting the future number of workers who will have wage rates in the relevant range, their precise wage rates, nor the number of hours they will work under current law. The annual decline estimated from earlier periods could turn out to be too rapid or too slow.

INDIRECT EFFECTS OF AN INCREASE IN THE MINIMUM WAGE

An increase in the minimum wage rate from $5.15 to $6.15 would require employers to raise the wage rates paid to the lowest-paid workers covered by the FLSA by 19 percent and would require employers to raise the wages of workers in the range between the old and the new statutory rates by smaller amounts. As under current law, employers could still pay teenage workers $4.25 per hour during their first 90 calendar days of employment.

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2. In March 1999, 1.1 million workers reported being paid an hourly wage rate of less than $5.00. Some workers, such as employees in retail firms whose gross volume of sales is less than $500,000 are not covered by the minimum wage, while others, such as certain tipped workers, are covered but can be paid a lower wage rate.

Economists have devoted considerable energy to the task of estimating how employers would respond to such a mandate. Although most economists would agree that an increase in the minimum wage rate would cause firms to employ fewer low-wage workers (or employ them for fewer hours), there is considerable disagreement about the magnitude of the reduction. The main reason for this disagreement is that it has proven difficult to distinguish the effects on employment of past changes in the minimum wage from other changes in the labor market. Moreover, the estimates from such analyses are difficult to apply to future changes because labor market conditions will be different.

Based on CBO's review of a number of relevant studies, a plausible range of estimates of the potential job losses is that a 10 percent increase in the minimum wage would result in a 0.5 percent to 2 percent reduction in the employment level of teenagers and a smaller percentage reduction for young adults (ages 20 to 24).[3] These estimates imply employment losses for an increase in the minimum wage of the amount provided in S. 192 of roughly 100,000 to 500,000 jobs.

The low end of this range might be more realistic because the number of minimum-wage workers is smaller than it was during most of the time periods when the employment effects were estimated in the literature. Although the current minimum wage rate of $5.15 has been in place for less than two years (since September 1997), relatively few workers are paid that rate. In March 1999, only about 2 million workers were paid the federal minimum wage. During much of the past two decades, when many of the studies were undertaken, between 2 million and 4 million workers were paid the minimum wage.

Moreover, the 1996 increase in the minimum wage amended the FLSA to permit employers to pay teenagers $4.25 per hour for the first 90 days, and the current bill would not change this provision. The labor market experiences on which the estimates reported above are based did not reflect such a differential. Presumably, the differential could result in fewer employment losses for teenagers, more losses for adults, and fewer losses overall. While recent data indicate that few employers are using this option, its availability could cushion employment losses if labor markets weakened.

PREVIOUS CBO ESTIMATE

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3. See, for example, Alison J. Wellington, "Effects of the Minimum Wage on the Employment Status of Youths: An Update," *Journal of Human Resources*, Vol. XXVI, No. 1 (Winter 1991), pp. 27-46, Charles Brown, "Minimum Wage Laws: Are They Overrated?" *Journal of Economic Perspectives*, Vol. 2, No. 3 (Summer 1988), pp. 133-145, David Card and Alan B. Krueger, *Myth and Measurement: The New Economics of the Minimum Wage* (Princeton University Press, 1995), and Marvin H. Kosters, editor, *The Effects of the Minimum Wage on Employment* (AEI Press, 1996).

On March 26, 1998, CBO issued an estimate of S. 1805, which would increase the minimum wage rate in two annual steps to $6.15 per hour, with effective dates eight months earlier than the effective dates in S. 192. The current estimate of the direct cost to the private sector is based on the same methodology used for that estimate.

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